DRAFT

BRUCE D. CULLEY, C.P.A., P.C.
3000 BROOKTREE LANE, SUITE 210
GLADSTONE, MISSOURI 64119
816-453-1040 FAX: 816-453-0721
bruceculley@sbcglobal.net

Member American Institute of
Certified Public Accountants

Member Missouri Society of
Certified Public Accountants

CITY OF KEARNEY, MISSOURI

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

CITY OF KEARNEY, MISSOURI

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CITY OF KEARNEY, MISSOURI

LIST OF PRINCIPAL OFFICIALS

MARCH 31, 2006

MAYOR AND BOARD OF ALDERMAN

Bill Dane	Mayor
Jeffrey Couchman	Alderman
Jane Lowrey	Alderman
Danial Holt	Alderman
Alan Gustin	Alderman

CITY ADMINISTRATOR

Jim Eldridge

CITY CLERK

Joan Updike

DRAFT

BRUCE D. CULLEY C.P.A., P.C.
3000 Brooktree Lane, Suite 210
Gladstone, MO. 64119
816-453-1040 Fax: 816-453-0721

Independent Auditor's Report

Honorable Mayor and Board of Aldermen
City of Kearney, Missouri

I have audited the basic financial statements of the City of Kearney, Missouri, as of and for the year ended March 31, 2006, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City of Kearney, Missouri's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the basic financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the City's assets, liabilities, net assets/fund equity and revenues and expenditures/expenses arising from modified cash basis transactions as of and for the year ended March 31, 2006 on the modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described further in Note 1, the City has elected to implement Governmental Accounting Standards Board (GASB) Statements 33 and 34 as they relate to the basis of accounting described in Note 1, which have altered the format and content of the basic financial statements.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Kearney, Missouri. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the modified cash basis of accounting as described in Note 1.

The required supplementary information, as listed in the accompanying table of contents, including Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule and Notes, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.

Bruce Culley
Certified Public Accountant

Gladstone, Missouri
September 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

An objective and easily readable analysis of the City's financial activities. The Management's Discussion and Analysis presents an analytical overview of both short-term and long-term financial information.

CITY OF KEARNEY, MISSOURI
Kearney, Missouri 64150

Management's Discussion and Analysis

Our discussion and analysis of the City of Kearney's financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the City's financial statements that begin on Page 17.

FINANCIAL HIGHLIGHTS

- The General Fund of the City operated with a surplus of $212,908. This is the most important government fund and contains all of the major activities operated by the City.

- There was a net reduction in debt of $680,250 consisting of $281,250 of general obligation bonds, $250,000 of revenue bonds and $149,000 of capital lease obligations. The only new debt added was for the lease of equipment in the amount of $25,046. The City refinanced $6,000,000 of its general obligation debt at a net savings to taxpayers.

- Major capital improvements associated with infrastructure additions were as follows:

115 Washington Street Improvements	$ 20,455
Highway 92 Improvements	51,279
Highway 33 Construction	283,670
Total Infrastructure Improvements	$ 355,404

- Capital equipment purchased for the government funds amounted to $186,032. Capital equipment purchased for the Water and Sewer Fund amounted to $81,335.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report. City management has elected to implement the new model financial statement format and content using the City's modified cash basis of accounting.

GASB Statement No. 34 provides for a phased in implementation of the financial reporting model. Under the phased in approach, additional time has been provided for recording

infrastructure assets. Infrastructure assets include streets, sidewalks, curbs and streetlights owned by the City. The City has until March 31, 2008, to record these assets. The recording of infrastructure assets will bring about a major increase in the net assets of the City.

Report Components

This annual report consists of five parts as follows:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 16 and 17) provide information about the activities of the City government-wide statements (or "as a whole") and present a longer-term view of the City's finances.

Fund Financial Statements: Fund financial statements (on page 18 through 20) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail that the government-wide statements by providing information about the City's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending.

Fiduciary Fund Statements: The fiduciary fund financial statements show the activities connected with the Tax Increment Financing Commission (on page 21 and 22). The City acts as the paying agent for these funds.

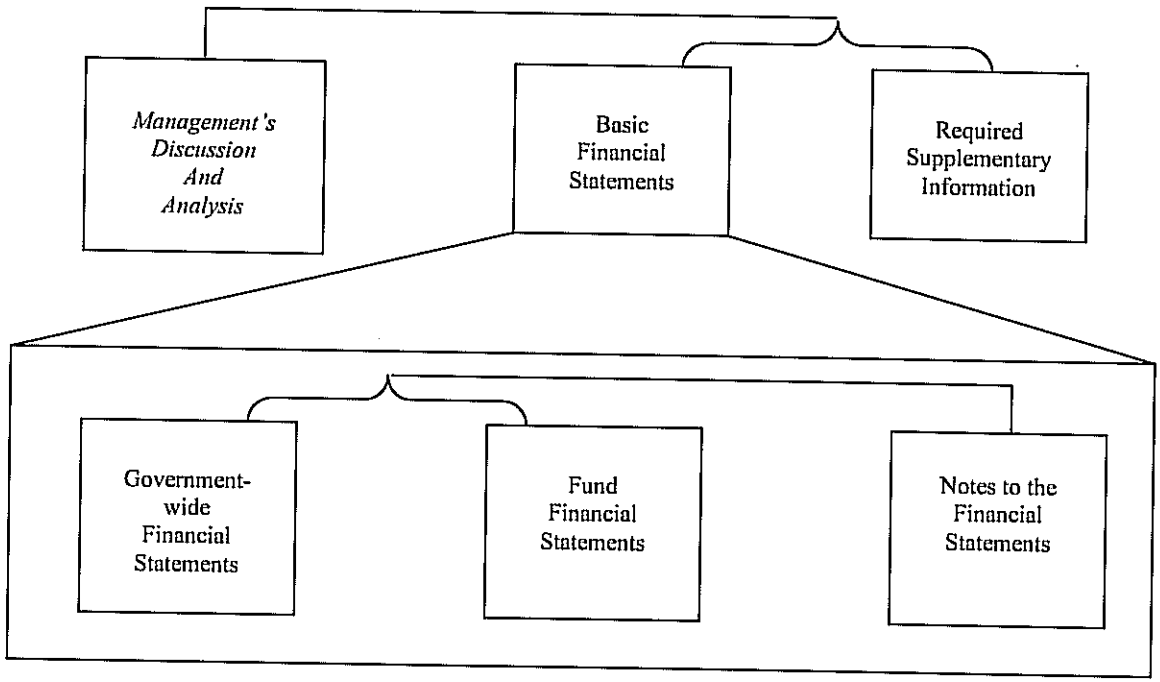
Proprietary Fund Financial Statements: The proprietary fund financial statements show how the Water and Sewer Fund performed during the year (on page 23 to 24).

Notes to Basic Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Budgetary Accounting Discussion and the General Fund Budgetary Comparison Schedules (starting on page 52) represent financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements"). These reports show general comparisons of actual to budget for various funds.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the financial statements.

Figure A-1



Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the Kearney Board of Aldermen is fiscally responsible.

The primary government includes the City of Kearney, as there are no component units.

The Government-wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the City as a whole begins on page 11. The government-wide financial statements are presented on pages 17 and 18. One of the most important questions about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets and liabilities resulting from the use of the modified cash basis of accounting.

The Statement of Net Assets and Statement of Activities are broken down between government activities and business type activities. The business activities include the operations of the water and sewer plant. The Water and Sewer Fund operates as a business since revenues are recorded from the sale of services to the City's customers. The operating expenses are then deducted to show the overall profit or loss. Most of the City's basic services are reported in the Government Activity section of the statement to include police, fire, general administration, streets, parks and general community activities. Sales taxes, property taxes, franchise fees, fines and other general revenue finance these activities.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base and the condition of the City's roads, to assess the overall health of the City.

The Fund Financial Statements

The fund financial statements provide more detailed information about the City's significant funds. Funds are groupings of related accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. The City has three kinds of funds: government funds, proprietary funds, and fiduciary funds. Our analysis of the City's major funds begins on page 19 and provides detailed information about the most significant funds – not the City as a whole.

> *Governmental Funds* – All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the acquisition of capital assets as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – The only proprietary fund operated by the City is the Water and Sewer Fund. The City charges customers a fee for their water and sewer usage and all the expenses from the operations of the water and sewer plant are deducted.

Fiduciary Funds – The City is trustee or fiduciary for the Tax Increment and Finance Commission. The City collects taxes and pays the debt associated with the TIF offerings. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities and Statement of Revenues, Expenditures and Changes in Liability Balance. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

GOVERNMENT WIDE FINANCIAL STATEMENTS

The net assets of the City increased $1,122,865 from $8,341,484 to $9,464,349. The increase comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. Program expenses are recorded by classification, general revenue, by major source.

The City's combined net assets for the fiscal year ended March 31, 2006, are summarized as follows:

	Government Activities	Business Activities	Total
Cash and Cash Equivalents	$ 4,988,715	$ 1,441,541	$ 6,430,256
Capital Assets	7,800,773	9,504,756	17,305,529
Total Assets	$12,789,488	$10,946,297	$23,735,785
Long Term Liabilities Outstanding	$ 9,376,080	$ 4,201,640	$13,577,720
Other Liabilities	438,716	255,000	693,716
Total Liabilities	$ 9,814,796	$ 4,456,640	$14,271,436
Net Assets			
Restricted	$ 2,705,101	$	$ 2,705,101
Unrestricted	269,591	6,489,657	6,759,248
Total Net Assets	$ 2,974,692	$ 6,489,657	$ 9,464,349

The City's net assets from governmental activities increased $865,913. The major reason for the increase in net assets was due to the increase in capital related projects. These major expenditures are shown in the Government Fund Statements as expenses. The net assets from business activities (Water and Sewer Fund) increased by $256,952. Capital assets increased as a result of completion of the West Creek Sewer Project.

The cost of all government activities this year was $3,523,264. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities

was $3,029,416 because $493,848 in costs was paid by those who directly benefited from the program or from fines. Overall, the City's government program revenues totaled $4,389,177.

FUND FINANCIAL STATEMENTS

A. Balance Sheet – Government Funds

The only asset represented in the Government Fund Balance Sheet is cash. Cash and cash equivalents consist of checking accounts, savings accounts and certificates of deposit. Certain cash accounts are restricted for defined purposes. Cash and cash equivalents can be broken down as follows:

Unrestricted cash and cash equivalents	$2,283,614
Restricted cash and cash equivalents	2,705,101
Total	$4,988,715

There was an overall decrease in the government fund balance as follows:

Fund Balance, March 31, 2005	$4,965,871
Net Change in Fund Balance	22,844
Fund Balance, March 31, 2006	$4,988,715

The fund balance decreased because major expenditures were made in the capital projects fund. The major expenditures were for Highway 33 improvements, the purchase of and improvement of a downtown building and certain sewer improvements.

B. Government Fund Analysis: Revenue and Expenditures

The most important fund is the General Fund, which shows the major operations of the City. The General Fund showed a surplus of $212,908 for the year. The Special Revenue Fund showed a surplus of $48,080, because all of the funds were not transferred to other funds from the revenue generated. The Special Revenue fund receives sales tax and transfers the money to other funds. The Debt Service Fund showed a surplus of $152,129 after transfers. The Capital Project Fund showed a large deficit because of the work on the Highway 33 Project. This was planned as part of the major City expansion. The City had borrowed funds for the two projects in previous years, and funds were spent on the projects during fiscal 2006 as planned. In summary, the surplus in the Government Fund including Capital Projects was $22,844.

C. Proprietary Fund – Water and Sewer Fund

The City of Kearney operates the water and sewer plant, which is the City's only Proprietary Fund. The Water and Sewer Fund had a profit before transfers of $156,621. Net transfers of $100,331 were made to the Water and Sewer Fund providing a net addition to the fund balance of $256,952. Depreciation, which is a non-cash charge, amounted to $254,617.

Developers are charged a sewer hook-up fee of $1,500 per lot. These funds are being used to help finance the expansion of the water and sewer system. These fees amounted to $195,000 during the year and have been recorded as receipts in the Capital Improvements Fund.

D. Agency Funds

The only Agency Fund operated by the City is for the Tax Increment Financing Commission (TIF). Agency funds involve the money for other agencies for which the City has no ownership. The City has had two major TIF projects since inception of the Commission. One project is for downtown redevelopment and the other is for construction of a utility plant. The City held TIF funds amounting to $69,914. These funds represent tax receipts and some interest income that are to be used to repay the debt on the TIF projects and repay some of the developers' cost based upon sales tax receipts. There was an overall deficit of $3,190 from the operation of the TIF Commission. During the past few years, the TIF Commission has been able to retire the bonds at a faster rate than originally proposed in the amortization schedule because the receipts have exceeded the planned debt retirement.

LONG-TERM DEBT (INCLUDING CAPITAL LEASES)

At year end the City had $14,271,436 in outstanding bond and lease obligations. This represents a decline of $680,250. More detailed information on the City's long-term liabilities is presented in Note 3 of the Notes to Financial Statements. The only new debt came from a capital lease obligation to acquire equipment in the amount of $25,046. State law limits the amount of general obligation debt the City can issue to 20% (10% can be used for any purpose and the other 10% is reserved for streets and storm water projects) of the assessed value of all property within the City's corporate limits. The outstanding debt subject to the limit is $7,893,750, resulting in a legal debt margin of $11,010,295. The City has been able to maintain property tax rates for debt financing at relatively stable levels.

	Government Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	$7,893,750	$ 8,175,000	$	$	$ 7,893,750	$ 8,175,000
Revenue Bonds			4,456,640	4,706,640	4,456,640	4,706,640
Capital Lease Obligations	1,921,046	2,045,000			1,921,046	2,045,000
	$9,814,796	$10,220,000	$4,456,640	$4,706,640	$14,271,436	$14,926,640

Capital Assets and Capital Improvements

Major capital expenditures during the year consisted of the following:

1. Completion of the construction of the Highway 33 Project, which is partially funded by the Missouri Department of Transportation.
2. Infrastructure improvements to Highway 92 and Washington Street.

The infrastructure assets, which are part of the general fixed assets, have not been recorded if acquired prior to March 31, 2004, but will be in the next two fiscal years

The capital assets of the Water and Sewer Fund have been maintained for several years to enable the modified cash basis of accounting to be used and depreciation calculated for the proprietary fund. The City has made a strong commitment to maintain the water and sewer system so the future growth of the City can be accommodated. A summary of the capital assets at their gross amount is shown below.

	Government Activities		Business Activities		Total	
Capital Assets	2006	2005	2006	2005	2006	2005
Land	$ 553,419	$ 553,419	$ 250,328	$ 250,328	$ 803,747	$ 803,747
Buildings	350,000	350,000	476,696	476,696	826,696	826,696
Improvements	775,365	747,736			775,365	747,736
Machinery and Equipment	727,758	569,355	541,396	460,061	1,269,154	1,029,416
Water and Sewer Lines			10,700,955	10,700,955	10,700,955	10,700,955
	$2,406,542	$2,220,510	$11,969,375	$11,888,040	$14,375,917	$14,108,550
Infrastructure Assets						
Street Improvements	$9,953,992	$ 0	$ 0	$ 0	$ 9,953,992	$ 0

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The details of the budget comparison for the fund financial statements are shown in the Required Supplementary Information section.

The City showed good fiscal responsibility by operating within budget guidelines.

General Fund – The actual revenue for all major categories exceeded the budget with the exception of the grant revenue. All of the grant monies from the Missouri Department of Transportation were not received during the year. The total expenditures in the general fund were less than the budget mainly because some of the capital expenditures, which had been budgeted, were not expended.

Special Revenue – The sales tax revenue received in the Special Revenue Fund exceeded the budget by $77,013. Expenditures and transfers were greater than budget but only by $14,174.

Debt Service - Revenue in the Debt Service Fund exceeded the budget by $22,681. Actual expenditures in the Debt Service Fund exceeded the budget mainly because of the cost of the refinancing.

Capital Projects - The actual revenue in the Capital Projects Fund was greater than budgeted by $42,993. Capital improvement expenditures were less than budgeted because certain projects were not completed. It is anticipated that there will be more activity in this fund in the next year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The following factors were considered in preparing the City's budget for the fiscal year ended March 31, 2006.

- The overall City economy compares favorably to regional trends.
- Sales tax collections continue to exceed budget projections.
- The occupancy rate of the business district has remained strong for the past three years with many new business starts.
- Residential building permits have continued to increase.
- The City continues to make capital improvements to its road and park infrastructure and to its water and sewer system to accommodate future growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office, Kearney, Missouri, at (816) 628-4142.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by GASB. The sets of statements include:

- Government-wide Financial Statements
- Fund Financial Statements
    - Governmental Funds
    - Agency Funds
- Proprietary Funds

In addition, the notes to basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
MARCH 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash - Checking	$ 380,538	$ 414,300	$ 794,838
Cash - Savings	4,608,177	492,942	5,101,119
Cash - Certificates of Deposit	-	534,299	534,299
Total Current Assets	4,988,715	1,441,541	6,430,256
Non-current Assets			
Construction in Progress	-	-	-
Land, Building and Equipment, Net	7,800,773	9,504,756	17,305,529
Total Non-current Assets	7,800,773	9,504,756	17,305,529
Total Assets	$12,789,488	$10,946,297	$23,735,785
Liabilities			
Current Liabilities			
Long-term Bonds Due Within the Year	$ 278,750	$ 255,000	$ 533,750
Capital Leases Due Within the Year	159,966	-	159,966
Total Current Liabilities	438,716	255,000	693,716
Long-term Liabilities			
Long-term Bonds Due in More than One Year	7,615,000	4,201,640	11,816,640
Capital Leases Due in More than One Year	1,761,080	-	1,761,080
Total Long-term Liabilities	9,376,080	4,201,640	13,577,720
Total Liabilities	9,814,796	4,456,640	14,271,436
Net Assets			
Invested in Capital Assets, Net of Related Debt	(1,575,307)	5,048,116	3,472,809
Restricted			
Capital Projects	2,405,683	-	2,405,683
Debt Service	299,418	-	299,418
Unrestricted	1,844,898	1,441,541	3,286,439
Total Net Assets	2,974,692	6,489,657	9,464,349
Total Liabilities and Net Assets	$12,789,488	$10,946,297	$23,735,785

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government:							
Governmental Activities							
Personnel	$ 1,385,986	$ -	$ -	$ -	$ (1,385,986)	$ -	$ (1,385,986)
Contractual Services	935,844	249,827	-	-	(686,017)	-	(686,017)
Supplies	195,484	-	-	-	(195,484)	-	(195,484)
Residential Trash	235,986	244,021	-	-	8,035	-	8,035
Interest and Fees	529,542	-	-	-	(529,542)	-	(529,542)
Depreciation	103,571	-	-	-	(103,571)	-	(103,571)
Miscellaneous	24,811	-	-	-	(24,811)	-	(24,811)
Total Governmental Activities	3,411,224	493,848	-		(2,917,376)	-	(2,917,376)
Business-type Activities				-			
Water and Sewer	1,646,459	1,803,080	-	-	-	156,621	156,621
Total Business-type Activities	1,646,459	1,803,080	-	-	-	156,621	156,621
Total Primary Government	$ 5,057,683	$ 2,296,928	$ -	$ -	(2,917,376)	156,621	(2,760,755)
General Revenues:							
Taxes							
Sales Tax					1,722,619	-	1,722,619
Property Tax					773,967	-	773,967
Motor Fuel Tax					224,411	-	224,411
Franchise Tax					478,579	-	478,579
Interest and Investments					190,813	-	190,813
Grants					27,864	-	27,864
Sewer Connections					195,000	-	195,000
Fines					101,855	-	101,855
Miscellaneous					180,221	-	180,221
Transfers, Net					(112,040)	100,331	(11,709)
Total General Revenues, Special Items, and Transfers					3,783,289	100,331	3,883,620
Change in Net Assets					865,913	256,952	1,122,865
Net Assets - Beginning of the Year					2,108,779	6,232,705	8,341,484
Net Assets - End of Year					$ 2,974,692	$ 6,489,657	$ 9,464,349

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
MARCH 31, 2006

	General	Special Revenue	Debt Service	Capital Projects	Total Government Funds
Assets					
Unrestricted					
Cash - Checking	$ 85,479	$ -	$ -	$ -	$ 85,479
Cash - Savings	1,420,278	-	-	-	1,420,278
Restricted					
Cash - Checking	-	(670)	18,825	276,904	295,059
Cash - Savings	-	778,527	280,593	2,128,779	3,187,899
Total Assets	$1,505,757	$777,857	$299,418	$2,405,683	$4,988,715
Liabilities and Fund Balance					
Liabilities	$ -	$ -	$ -	$ -	$ -
Fund Balance					
Reserved For:					
Capital Projects	-	-	-	2,405,683	2,405,683
Debt Service	-	-	299,418	-	299,418
Unreserved					
Undesignated	1,505,757	777,857	-	-	2,283,614
Total Fund Balance	1,505,757	777,857	299,418	2,405,683	4,988,715
Total Liabilities and Fund Balance	$1,505,757	$777,857	$299,418	$2,405,683	$4,988,715

Amounts reported for governmental activities in the statement of net assets are different because:

Fund Balance, shown above	$4,988,715
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	7,800,773
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the current period	(9,814,796)
Net Assets of Governmental Activities	$2,974,692

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2006

	General	Special Revenue	Debt Service	Capital Projects	Total Government Funds
Revenues					
Taxes					
Property Tax	$ 720,184	$ -	$ 53,783	$ -	$ 773,967
Sales Tax		1,722,619	-	-	1,722,619
Motor Fuel Tax	224,411	-	-	-	224,411
Franchise Tax	478,579	-	-	-	478,579
Interest on Accounts	38,157	35,789	16,410	100,457	190,813
Grants	18,276	-	-	9,588	27,864
Licenses, Permits, Fees, etc.	249,827	-	-	-	249,827
Public Safety	101,855	-	-	-	101,855
Trash	244,021	-	-	-	244,021
Sewer Connection	-	-	-	195,000	195,000
Miscellaneous	117,103	-	43,070	20,048	180,221
Total Revenues	2,192,413	1,758,408	113,263	325,093	4,389,177
Expenditures					
Personnel	1,385,986	-	-	56,117	1,442,103
Contractual Services	1,186,190	-	-	64,838	1,251,028
Commodities and Supplies	80,114	-	-	-	80,114
Capital Expenditures	184,447	85,483	-	220,026	489,956
Debt Service	72,159	-	710,554	179,791	962,504
Miscellaneous	24,811	-	3,777	-	28,588
Total Expenditures	2,933,707	85,483	714,331	520,772	4,254,293
Excess (Deficiency) of Revenues Over (Under) Expenditures	(741,294)	1,672,925	(601,068)	(195,679)	134,884
Transfers In	1,237,702	50,000	558,603	-	1,846,305
Transfers Out	(283,500)	(1,674,845)	-	-	(1,958,345)
Other Transfers	-	-	194,594	(194,594)	-
Net Changes in Fund Balances After Transfers	212,908	48,080	152,129	(390,273)	22,844
Fund Balance, Beginning of Year	1,292,849	729,777	147,289	2,795,956	4,965,871
Fund Balance, End of Year	$ 1,505,757	$ 777,857	$ 299,418	$ 2,405,683	$ 4,988,715

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

Net Change in Fund Balances - Total Governmental Funds	$ 22,844
Governmental Funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following assets were added:	
Addition of Equipment	186,032
Addition of Infrastructure Assets	355,404
Depreciation expense on capital assets is reported on the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(103,571)
Bond and lease proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets	
This amount represents bond and lease repayments	430,250
This amount represents lease proceeds	(25,046)
Change in Net Assets of Governmental Activities	$865,913

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
MARCH 31, 2006

	TIF
Assets	
Cash and Investments	$ 69,914
Total Assets	$ 69,914
Liabilities	
Due to TIF	$ -
Total Liabilities	-
Net Assets	
Held in Trust for TIF	69,914
Total Net Assets	69,914
Total Liabilities and Net Assets	$ 69,914

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
MODIFIED CASH BASIS - FIDUCIARY FUND
TAX INCREMENT FINANCING COMMISSION
FOR THE YEAR ENDED MARCH 31, 2006

	TIF
Revenues	
Taxes	$ 174,216
Interest	2,892
Total Revenues	177,108
Expenditures	
Debt Service	
Principal	83,000
Interest	67,554
Reimbursement to Developer	41,167
Other	286
Total Expenditures	192,007
Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,899)
Transfers	11,709
Change in Net Assets	(3,190)
Net Assets, Held in Trust for TIF at Beginning of Year	73,104
Net Assets, Held in Trust for TIF at End of Year	$ 69,914

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
WATER AND SEWER FUND
MARCH 31, 2006

Assets	
Current Assets	
Cash - Checking	$ 414,300
Cash - Savings	492,942
Cash - Certificates of Deposit	534,299
Total Current Assets	1,441,541
Non Current Assets	
Land, Building and Equipment, Net	9,504,756
Total Non Current Assets	9,504,756
Total Assets	$10,946,297
Liabilities	
Current Liabilities	
Long Term Bonds Due Within the Year	$ 255,000
Total Current Liabilities	255,000
Long Term Liabilities	
Long Term Bonds Due in More Than One Year	4,201,640
Total Long Term Liabilities	4,201,640
Total Liabilities	4,456,640
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,048,116
Unrestricted	1,441,541
Total Net Assets	6,489,657
Total Liabilities and Net Assets	$10,946,297

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
WATER AND SEWER FUND
FOR THE YEAR ENDED MARCH 31, 2006

Operating Revenues	
Licenses, Permits and Fees	$ 351,170
Water and Sewer Fees	1,371,429
Miscellaneous	37,348
Total Receipts	1,759,947
Operating Expenses	
Personnel	395,471
Contractual Services	506,456
Supplies	188,004
Water Contract - Kansas City	110,807
Fees	14,569
Miscellaneous	22,634
Depreciation	254,617
Total Expenses	1,492,558
Excess (Deficiency) of Revenues Over (Under) Expenditures	267,389
Net Nonoperating Revenues and (Expenses)	
Interest Income	43,133
Interest Expense	(153,901)
Net Nonoperating Revenues and Expenses	(110,768)
Income (Loss) Before Contributions and Transfers	156,621
Transfers In	418,701
Transfers Out	(318,370)
Change in Net Assets	256,952
Net Assets, Beginning of Year	6,232,705
Net Assets, End of Year	$ 6,489,657

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2006

Cash Flows From Operating Activities	
Revenues Collected and Operating Transfers Over Expenditures Paid	$ 256,953
Depreciation	254,617
Other	(37)
	254,580
Net Cash Flows Provided (Used) by Operating Activities	511,533
Cash Flows From Investing Activities	
Water and Sewer Plant Equipment Purchases	(81,335)
Net Cash Flows Provided (Used) by Investing Activities	(81,335)
Cash Flows From Financing Activities	
Bonds Retired	(250,000)
Net Cash Flows Provided (Used) by Financing Activities	(250,000)
Increase (Decrease) in Cash and Cash Equivalents	180,198
Cash and Cash Equivalents, Beginning of Year	1,261,343
Cash and Cash Equivalents, End of Year	$ 1,441,541

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kearney, Missouri, was incorporated in 1883 and covers an area of approximately eight square miles in Clay County, Missouri. The City is a city of the fourth class and operates under the Mayor - Administrator - Aldermen form of government. The City Administrator is the chief administrative assistant to the Mayor of the City. The City provides services to more than 7,399 (U.S. Census Estimate, July 2005) residents, including law enforcement, parks and recreation, street and storm water maintenance, water and sewer services, community enrichment and development, and various social services. Kearney School District No. 21, a separate governmental entity, provides educational services.

Except for the use of a modified cash basis of accounting, the City complies with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended March 31, 2005, the City implemented the new financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* with the exception of the retroactive reporting of infrastructure assets. Newly acquired infrastructure assets since March 31, 2004, have been capitalized as part of the City's assets. GASB No. 34 provided for a phase-in of the reporting of general infrastructure assets retroactively for years prior to March 31, 2008. This allows the cities a longer period of time to implement the reporting of the assets but does not change the reporting of new infrastructure assets after the initial implementation of GASB No. 34. The proper costing of these assets is a complex task, and the City of Kearney has elected to delay the implementation of the retroactive reporting of these assets. The City has until March 31, 2008, to fully implement retroactive reporting of infrastructure assets, although early implementation may be accomplished.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government: City of Kearney, Missouri

Basis of Presentation

Governmental-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary funds. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature, (i.e., assets equal liabilities) they do not involve the measurement of results of operations. The agency funds are as follows:

Municipal Court	Accounts for municipal court bonds held for individuals waiting court dates, monies collected from fine assessments payable to the City.
TIF	Receipts and disbursements associated with the Tax Increment and Financing Commission.

Capital Project Funds

Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project fund:

Capital Improvements	Accounts for contributions and specific transfers from the General Fund and expenditures for various capital projects as the City Council may designate. This fund is classified as a major fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Water and Sewer	Accounts for the activities of the public trust in providing water, wastewater and sanitation services to the public. This fund is classified as a major fund.

Major and Nonmajor Funds

The funds are classified as major or nonmajor as follows:

Major Funds	Nonmajor Funds
General Fund	Agency Funds
Capital Project Fund: Capital Improvements	
Debt Service	
Water and Sewer	

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities governmental activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus - Continued

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of a period.

Basis of Accounting

In the government-wide Statement of Net Assets, Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Modified Accrual Basis - Revenues would be recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

Expenditures (including capital outlay) would be recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrual Basis - Revenues would be recognized when earned.

Expenses (including depreciation and amortization) would be recorded when the liability was incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions would be recognized when the exchange took place.

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of one year or less.

Investments

Investments classified in the financial statements consist entirely of government securities. Investments are carried at cost, which approximates market.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Inventories

As a result of the use of the modified cash basis of accounting, consumable materials and supplies are recorded as expenditures/expenses at the time of purchase, and, therefore, no balances for inventory on-hand are reported in the balance sheet.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations, whether they are reported in the government-wide or fund financial statements or whether they are used in the proprietary fund statement.

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. The City elected to use the "modified approach" as defined by GASB Statement No., 34 for infrastructure reporting these assets. Infrastructure assets include streets, bridges, storm water system, fire hydrants, street lighting and a portion of the indirect costs of the water-sewer system. The only infrastructure assets recorded since GASB Statement No. 34's implementation effective April 1, 2004, was for Highway 33 improvements. A more detailed discussion of the "modified approach" is presented in the Required Supplementary Information section of this report. All other capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on the useful lives of all capital assets.

Buildings	40-50 years
Improvements Other than Buildings	10-25 years
Machinery, Furniture and Equipment	3-20 years
Utility Property and Improvements	10-50 years

The City has elected to delay the implementation of the retroactive reporting of infrastructure as provided by GASB No. 34. The City will be recording retroactively general infrastructure assets in the near future. The City is in the process of making a physical assessment of the infrastructure condition, which will be performed every three years. Each of the assets that are part of the infrastructure will be rated. The City's policy will be to maintain all infrastructure assets at a classification of "Good" or better condition. Accordingly depreciation is not reported for infrastructure assets and all expenditures except for betterments and major improvements made to a subsystem are expensed.

Construction in Progress

Construction in progress represents capital improvement projects that are in progress of completion at year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the government-wide or fund financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

EQUITY CLASSIFICATIONS

Government-wide Statements

Equity is classified as net assets and displayed in three components:

a. Restricted capital assets - net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

b. Restricted net assets – Consist of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

Governmental fund equity is classified as fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

REVENUE, EXPENDITURES AND EXPENSES

Sales Tax

The City presently levies a 1.0 % sales tax on taxable sales within the City for general fund purposes. An additional 1.0% is collected for transportation and capital improvements. The sales tax is collected by the State of Missouri and remitted to the City in the month following receipt by the State. The sales tax received is to be recorded as sales tax revenue within the General Fund.

Property Tax

The City levies and collects property taxes as outlined in Note 8.

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General Government	Licenses and Permits
Public Safety	Fine Revenue
Streets and Public Works	Commercial vehicle and gasoline excise tax shared by the State.
Parks and Recreation	Rental income, recreation fees, concession sales and specific donations.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the cash basis and are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds	Current Capital Outlay Debt Service
Proprietary Fund	Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 – COMMITMENTS

Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters.

The City manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
a. Torts, errors and omissions health and life	Purchased commercial insurance	None

NOTE 2 – COMMITMENTS – CONTINUED

Insurance – Continued

b. Workers Compensation: Employee injuries	Purchased commercial insurance	None
c. Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 3 – LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and the amounts to be repaid from business-type activities.

The following is a summary of bond transactions for the year ended March 31, 2006:

	General Obligation Bonds	Revenue Bonds	Total
Bonds Payable, March 31, 2005	$8,175,000	$4,706,640	$12,881,640
Bonds Issued	6,000,000	0	6,000,000
Bonds Retired – Regular	(281,250)	(250,000)	(531,250)
Bonds Refunded	(6,000,000)	0	(6,000,000)
Adjustments	0	0	0
Bonds Payable, March 31, 2006	$7,893,750	$4,456,640	$12,350,390

General Obligation Bonds payable at March 31, 2006, consist of:

General Obligation Bonds, Series 1997, for the purpose of constructing and equipping a sewerage treatment plant due in varying installments through January 1, 2017, at interest ranging from 3.9% to 5.125% per annum.	$ 403,750
General Obligation Bonds, Series 2001, due in varying installments through 2011	1,490,000
General Obligation Bonds, Series 2006 due in varying installments through 2021	6,000,000
Total General Obligation Bonds	$7,893,750

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2006

NOTE 3 – LONG-TERM DEBT – CONTINUED

Combined Waterworks and Sewerage System Bonds, series 1997 due in varying installments through March 31, 2016	$ 350,000
Combined Waterworks and Sewerage System Revenue Bonds, due in varying installments from January 1, 1996, to January 1, 2016, at interest rates varying from 3.6% to 5.9%	623,750
Water and Pollution Control Bonds due in varying installments through 2022	2,402,890
Waterworks and Sewerage System Refunding Revenue Bonds, Series 2004	1,080,000
Total Revenue Bonds	$ 4,456,640
Total Bonds Payable	$12,350,390

During fiscal 2006 the City issued $6,000,000 of general obligation refunding bonds.

	Principal	Interest
2007	$ 0	$ 248,981
2008	0	248,981
2009	0	248,981
2010	0	248,981
2011	0	248,981
2012 – 2021	6,000,000	1,517,339
	$6,000,000	$2,762,244

NOTE 3 – LONG-TERM DEBT – CONTINUED

General Obligation Series 1997 Bonds

Due March 1	Principal	Interest
2007	$ 33,750	$ 24,695
2008	35,000	23,076
2009	35,000	21,431
2010	40,000	19,419
2011	40,000	17,119
2012 – 2021	220,000	54,581
	$ 403,750	$ 160,321

2001 General Obligation Bonds

Due March 1	Principal	Interest
2007	$ 245,000	$ 62,711
2008	275,000	52,911
2009	295,000	41,224
2010	325,000	28,687
2011	350,000	14,875
	$1,490,000	$ 200,408

1996 Waterworks and Sewerage System Refunding and Improvement Bonds

Due November 1	Principal	Interest
2007	$ 80,000	$ 18,900
2008	85,000	14,580
2009	90,000	9,990
2010	95,000	5,130
	$ 350,000	$ 48,600

NOTE 3 – LONG-TERM DEBT – CONTINUED

1996 Combined Waterworks and Sewerage System Revenue Bonds (SRF)

Due January 1	Principal	Interest
2007	$ 48,750	$ 35,912
2008	50,000	33,262
2009	55,000	30,562
2010	55,000	27,537
2011	60,000	24,485
2012 – 2016	355,000	65,195
	$ 623,750	$ 216,953

Series 2001 Water and Pollution Control State Revolving Loan Revenue Bonds (SRF)

Due July 1	Principal	Interest
2007	$ 86,250	$ 120,694
2008	95,000	116,069
2009	100,000	111,194
2010	105,000	105,938
2011	110,000	100,294
2012 – 2022	1,906,640	643,715
	$2,402,890	$1,197,904

2004 Waterworks and Sewerage System Refunding Revenue Bonds

Due November 1	Principal	Interest
2007	$ 40,000	$ 37,525
2008	40,000	36,775
2009	40,000	35,875
2010	35,000	34,835
2011	140,000	33,820
2012 – 2016	785,000	93,885
	$1,080,000	$ 272,715

NOTE 4 – LEASE COMMITMENTS

The following is a summary of lease transactions for the year ended March 31, 2006:

	General Obligation Bonds
Capital Lease Obligations Payable, March 31, 2005	$2,045,000
New Capital Lease	25,046
Capital Lease Obligation Retired	(149,000)
Capital Lease Obligations Payable, March 31, 2006	$1,921,046

Downtown Improvement Lease/Purchase

During fiscal 2005 the City entered into a lease-purchase agreement with a local bank for the acquisition of certain downtown property. The lease purchase agreement provided $234,000 of funds payable over the next twenty years. Payment under the lease is as follows:

Fiscal Year	Principal	Interest
2007	$ 7,000	$ 11,990
2008	8,000	11,605
2009	8,000	11,165
2010	9,000	10,725
2011	9,000	10,230
2012 – 2024	177,000	75,220
	$ 218,000	$ 130,935

West Creek Sewer Interceptor

During 2004, the City entered into a lease purchase agreement with a local bank in the amount of $1,500,000 enabling the City to acquire equipment for the West Creek sewer interceptor lines. The indebtedness is represented by Certificates of Participation. Under the lease agreement, the City is to make certain lease payments and, at the end of the lease, the City will own the sewer lines and equipment. The interest rate on the lease is 4.625% with annual principal payments due of between $75,000 in the first year and $140,000 in the final year of the lease.

NOTE 4 – LEASE COMMITMENTS – CONTINUED

Principal payments due under the lease are as follows:

Fiscal Year	Principal	Interest
2007	$ 90,000	$ 61,166
2008	90,000	57,003
2009	95,000	52,841
2010	100,000	48,331
2011	100,000	43,706
2012 – 2018	870,000	157,944
	$1,345,000	$ 420,991

Porter Park Softball Fields

During 2003, the City entered into a lease purchase agreement with a bank under which the City agreed to convey a leasehold interest to the bank in return for $282,000 in connection with the downtown improvement lease. The City used the proceeds of the lease purchase to make certain improvement to city facilities. In return, the City is to make annual payments under the lease varying from a low of $42,800 to a high of $43,605.

Principal payments due under the lease are as follows:

Fiscal Year	Principal	Interest
2007	$ 34,000	$ 8,930
2008	36,000	7,315
2009	38,000	5,605
2010	39,000	3,800
2011	41,000	1,947
	$ 188,000	$ 27,597

Jesse James Park Land Lease

In January 1999, the City entered into a contract to purchase land for a park from the Jesse James Festival, Inc. As part of that agreement the City purchased the land for $364,916, making a down payment of $96,916 and financing the balance of $268,000 on a lease purchase in the amount of $268,000. The lease purchase involves annual payments of $32,825.

NOTE 4 – LEASE COMMITMENTS – CONTINUED

Principal payments due under the lease are as follows:

Fiscal Year	Principal	Interest
2007	$ 21,000	$ 7,612
2008	22,000	6,510
2009	24,000	5,335
2010	25,000	4,095
2011	26,000	2,782
2012	27,000	1,418
	$145,000	$ 27,752

Equipment Lease

The City entered into an equipment lease in fiscal 2006 with a local bank. The lease purchase of equipment in the amount of $34,202 required a down payment of $9,456 and financing of the balance over a two-year period at an interest rate of 4.75%. The payments required under the lease are as follows:

Due July 20	Principal	Interest
2007	$ 7,966	$ 1,190
2008	8,344	811
2009	8,736	415
	$25,046	$ 2,416

NOTE 5 – PENSION PLAN

Plan Description

The City of Kearney participates in the Missouri Local Government, Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

NOTE 5 – PENSION PLAN – CONTINUED

LAGERS is a defined benefit pension plan, which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a, and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or calling 1-800-447-4334.

Funding Policy

The City of Kearney's full-time employees do not contribute to the pension plan. The political subdivision is required by state statute to contribute at an actuarially determined rate; the current rate is 11.6% (general) and 11.6% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost

For 2005, the political subdivision's annual pension cost of $133,325 was equal to the required and actual contributions. The required contribution was determined as part of the February 29, 2004, and/or 2004, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, (d) pre-retirement mortality based on the 1983 Group Annuity Mortality table, and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The un-funded actuarial accrued liability is being

NOTE 5 – PENSION PLAN – CONTINUED

amortized as a level percentage of projected payrolls on a closed basis. The amortization period at February 28, 2005, was 27 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/03	$113,243	100%	$0
06/30/04	$124,041	100%	$0
06/30/05	$133,325	100%	$0

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
02/28/03	$1,139,772	$1,512,874	$373,102	75%	$ 980,312	38%
02/29/04	$1,367,694	$1,178,114	$418,420	77%	$1,116,138	37%
02/28/05	$1,316,820	$1,753,496	$436,676	75%	$1,125,541	39%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2001, annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

NOTE 6 – TAX INCREMENT FINANCING COMMISSION (TIF)

During fiscal 1997, the City of Kearney set up a Tax Increment Financing Commission to operate in the City of Kearney. The City entered into an agreement with a developer to construct a building in the development area. A special tax levy on property is funding the debt service requirements. A second bond issue was sold in fiscal 2002 to make certain improvements on the property.

NOTE 6 – TAX INCREMENT FINANCING COMMISSION (TIF) – CONTINUED

As part of the second TIF bond issue, the City has agreed to reimburse the developer $253,646 of construction costs. The reimbursement is to be paid out of future property tax collections (PILOTS) and sales taxes (EATS) generated by the project.

The taxing power of the City is not pledged to the payment of the TIF bonds either as to principal or interest. The bonds do not constitute a general obligation of the City. The bonds are special obligation bonds payable from special tax levies on the project.

The following is a summary of bond transactions in the TIF account:

Bond Payable, March 31, 2005	$1,177,000
Bonds Retired	(83,000)
Bonds Payable, March 31, 2006	0
	$1,094,000

1996 and 2002 Tax Increment Bonds

Due March 1	Principal Amount
2007	$ 17,000
2008	68,000
2009	73,000
2010	79,000
2011 – 2018	857,000
Total	$1,094,000

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457, which is accounted for in the Deferred Compensation Plan Fund. The plan, which is administered by one carrier, is available to all City employees who qualify under the plan terms and permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available to employees until termination, retirement, death or unforeseeable emergency. The assets in the plan at March 31, 2006, total $187,487.

NOTE 7 – COMMITMENTS AND CONTINGENCIES – CONTINUED

A summary of changes during the period is as follows:

Beginning Balance March 31, 2005	$ 142,380
Contributions	27,404
Withdrawals	(772)
Change in Value	18,475
Ending Balance March 31, 2006	$187,487

Purchase of Water From Kansas City, Missouri

The City has entered into a water purchase agreement with the City of Kansas City, Missouri, to purchase water for a period of twenty-five years. The City of Kearney has sold revenue bonds and made water system improvements to meet requirements of the City of Kansas City, Missouri. Beginning in fiscal 2004, the City of Kearney has agreed to purchase 28.7% of the capacity of the water line. If purchases are not made, then certain penalties will apply. Beginning in November 2004, the City of Kearney is to pay the City of Kansas City, Missouri, $1,339,964 in monthly payments of $9,270. The payments are to be made over a twenty-year period at an interest rate of 5.65%. The City of Kearney paid Kansas City $110,807 based upon the contract requirements. In addition the City paid $100,083 for water.

NOTE 8 – PROPERTY TAX REVENUE AND ASSESSMENT

The City's property tax is levied each November 1 on the assessed value as of the prior January 1 for all real and personal property located in the City. Assessed values are established by the Clay County Assessor subject to review by the County's Board of Equalization.

The assessed value for property located in the City as of December 31, 2005, on which the 2006 levy was based, was $104,981,592. In the year ended March 31, 2006, the City collected $720,184 of property taxes that were billed in the period.

The City is permitted by Missouri State Statutes to levy taxes up to $1.00 per $100 of assessed valuation for general services other than the payment of principal and interest on long-term debt, and in unlimited amounts for the payment of principal and interest on long-term debt. The City's General Fund property tax levy per $100 assessed valuation was $.59 for the year ended March 31, 2006. The City's debt service tax levy per $100 assessed valuation was $.05 for the year ended March 31, 2006.

NOTE 8 – PROPERTY TAX REVENUE AND ASSESSMENT – CONTINUED

Property taxes are billed by the City on or before December 1 and are considered delinquent after January 1 after which the City may attach a lien to all property on which taxes are unpaid. The City records property tax as revenue at the time the taxes are received.

NOTE 9 – COMMITMENTS AND CONTENGENCIES – LAW SUITS

There are no claims for lawsuits to which the City is a part as a result of certain injuries and various other matters and complaints arising in the ordinary course of City activities. The City's management and legal counsel anticipate that any unknown potential claims, if any, against the City not covered by insurance would not have a material effect on the financial position of the City.

NOTE 10 – INTERFUND TRANSFERS

During the course of normal operations, the City may have transactions between funds including expenditures and transfers of resources primarily to provide services. A reimbursement process is in place when resources are transferred between funds.

NOTE 11 – FEDERAL AND STATE GRANTS

In prior years the City has participated in a number of federal and state programs that were fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of March 31, 2006, certain grant expenditures have not been audited by grantor governments, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Missouri or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A. Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As noted all deposits were fully insured or collateralized.

The City maintains a cash and investment pool, which is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as part of the checking or savings account. All of the City's deposits at year-end were in commercial banks.

At year-end the carrying amount of the City's deposits totaled $6,499,758 and the bank balances totaled $6,557,133. The bank balances can be categorized as follows:

Deposits covered by federal depository insurance or by collateral held by the City, or its agent, in the City's name	$6,557,133
Total Value of Securities Pledged	$7,115,028
FDIC Insurance	100,000
	$7,215,028
Bank deposits in excess of insurance and pledged securities	$ 657,895

NOTE 13 – CAPITAL EXPENDITURES

Capital Asset activity for the year ended March 31, 2006, was as follows:

General Government	03-31-05	Additions	Transfers	03-31-06
Governmental Activities				
Land	$ 553,419	$ -	$ -	$ 553,419
Buildings	350,000	-	-	350,000
Improvements	747,736	27,629	-	775,365
Machinery and Equipment	569,355	158,403	-	727,758
Total at Historical Cost	2,220,510	186,032	-	2,406,542
Less Accumulated Depreciation				
Buildings	144,125	8,000	-	152,125
Improvements	7,726	15,454	-	23,180
Machinery and Equipment	304,339	80,117	-	384,456
Total Accum. Depreciation	456,190	103,571	-	559,761
Governmental Activities Capital Assets, Net	$1,764,320	$ 82,461	$ -	$1,846,781

Water and Sewer	03-31-05	Additions	Transfers	03-31-06
Proprietary Activities				
Land	$ 250,328	$ -	$ -	$ 250,328
Buildings	476,696	-	-	476,696
Machinery and Equipment	460,061	81,335	-	541,396
Water and Sewer Lines and Improvements	10,700,955	-	-	10,700,955
Total at Historical Cost	11,888,040	81,335	-	11,969,375
Less Accumulated Depreciation				
Buildings	53,471	6,700	-	60,171
Machinery and Equipment	340,133	32,186	-	372,319
Water and Sewer Lines and Improvements	1,816,434	215,731	-	2,032,165
Total Accum. Depreciation	2,210,038	254,617	-	2,464,655
Proprietary Activities Capital Assets, Net	$9,678,002	$ (173,282)	$ -	$ 9,504,720

NOTE 13 – CAPITAL EXPENDITURES – CONTINUED

Depreciation has been recorded on the capital assets as follows:

Government Activities	$ 103,571
Business Activities:	
Water and Sewer Fund	254,617
	$ 358,188

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
  Special Revenue Funds
  Debt Service Funds
  Capital Project Funds

CITY OF KEARNEY, MISSOURI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED MARCH 31, 2006

Budgetary Accounting

The City prepares its budget for the General Fund on the cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements. All unexpended appropriations lapse at year-end.

Through the budget, the Board of Aldermen sets the direction of the City, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget covers the period from April 1, to March 31, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance.

The City's budget is prepared and based on various expenditure categories; personnel, supplies and services, minor capital outlay and capital improvement programs. The first three listed are considered operational in nature or known as recurring costs. Capital improvement projects are asset acquisitions, facilities, systems, and infrastructure improvements typically over $1,000 and/or those items 'outside' of the normal operational budget. These are known as one-time costs.

The City collects and records revenue and expenditures within the Governmental Activities. The Governmental Funds include the General Fund and Capital Projects. All funding sources are kept separate for both reporting and use of the money. The General Fund is where most City services are funded that are not required to be segregated.

The budget process begins as a team effort in January of each year. Then the individual departments use projected revenue assumptions to prioritize and recommend the next fiscal year's objectives. The City Administrator's Office review all budget proposals and revenue assumptions, as well as all current financial obligations before preparing the document that is proposed to the Board of Aldermen. The Board of Aldermen reviews the Proposed Budget and the final adoption of the budget is scheduled for approval in March.

CITY OF KEARNEY, MISSOURI
COMPARISON OF NEEDED-TO-ACTUAL MAINTENANCE/PRESERVATION FOR NEW INFRASTRUCTURE ASSETS
MARCH 31, 2006

The City has elected to use the Modified Approach as defined by GASB 34 for all infrastructure assets. Under GASB 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

> The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amounts to maintain and preserve at the established condition assessment level.

The City has not implemented the retroactive restatement of infrastructure assets owned by the City prior to March 31, 2004. The City has until March 31, 2008, to accomplish this. All of the new infrastructure assets which have been recorded are new and a condition assessment is not necessary because the assets are new. A comparison of actual to budgeted expenditures is not necessary.

The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level. It is the City's policy to maintain all infrastructure assets at or above the 70% level (100% being new construction).

CITY OF KEARNEY MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE - GENERAL FUNDS - ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED MARCH 31, 2006

	Operating	Cemetery	Police	Park	DWI Drug	Park Capital	Total	Budget	Over/Under Budget
Revenues									
Taxes: Property, Sales, etc.	$ 1,378,352	$ -	$ -	$ 44,822	$ -	$ -	$ 1,423,174	$ 1,419,575	$ 3,599
Licenses, Permits, Fees, etc.	206,927	-	-	-	-	42,900	249,827	230,625	19,202
Interest	30,194	4,541	77	935	-	2,410	38,157	13,320	24,837
Utilities/Trash	244,021	-	-	-	-	-	244,021	239,000	5,021
Fines	101,855	-	-	-	-	-	101,855	100,000	1,855
Miscellaneous	22,665	11,450	2,212	76,914	3,862	-	117,103	99,400	17,703
Grants/Donations	11,116	-	7,160	-	-	-	18,276	505,500	(487,224)
Total Revenues	1,995,130	15,991	9,449	122,671	3,862	45,310	2,192,413	2,607,420	(415,007)
Expenditures									
Personnel	1,284,308	-	-	101,678	-	-	1,385,986	1,462,946	76,960
Contractual Services	1,010,258	-	-	175,932	-	-	1,186,190	1,185,439	(751)
Commodities/Supplies	71,993	-	-	8,121	-	-	80,114	81,200	1,086
Capital	141,206	-	-	33,006	1,116	17,326	192,654	729,700	537,046
Miscellaneous	12,884	-	-	3,720	-	-	16,604	17,300	696
Principal	-	-	-	33,000	-	20,000	53,000	53,000	-
Interest	-	-	-	10,497	-	8,662	19,159	19,159	-
Total Expenditures	2,520,649	-	-	365,954	1,116	45,988	2,933,707	3,548,744	615,037
Revenues Collected Over (Under) Expenditures Paid	(525,519)	15,991	9,449	(243,283)	2,746	(678)	(741,294)	(941,324)	200,030
Operating Transfers									
Transfer To	954,202	-	-	283,500	-	-	1,237,702	1,259,562	(21,860)
Transfer From	(283,500)	-	-	-	-	-	(283,500)	(303,500)	20,000
Revenues Collected and Operating Transfers Over (Under) Expenditures Paid	$ 145,183	$15,991	$ 9,449	$ 40,217	$ 2,746	$ (678)	$ 212,908	$ 14,738	$198,170

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2006

	Sales Tax	Transportation Sales Tax	Capital Improvement Sales Tax	Total	Budget	Over (Under) Budget
Revenues						
Sales Taxes	$ 893,359	$ 414,630	$ 414,630	$1,722,619	$1,645,606	$ 77,013
Grants	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Interest	17,093	13,035	5,661	35,789	12,300	23,489
Total Revenues	910,452	427,665	420,291	1,758,408	1,657,906	100,502
Expenditures						
Capital Improvement	34,204	-	51,279	85,483	70,000	(15,483)
Revenues Collected Over (Under) Expenditures	876,248	427,665	369,012	1,672,925	1,587,906	115,985
Transfers						
Transfer To	50,000	-	-	50,000	-	50,000
Transfer From	(854,583)	(402,711)	(417,551)	(1,674,845)	(1,626,154)	(48,691)
Revenues Collected Over (Under) Operating Transfers and Expenditures Paid	$ 71,665	$ 24,954	$ (48,539)	$ 48,080	$ (38,248)	$ 117,294

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS - ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED MARCH 31, 2006

	Water and Sewer Obligation	Sewer Plant Obligation	Fire Station Sinking	City Hall Sinking	G.O. Hwy Bonds	Total	Budget	Over (Under) Budget
Revenues								
Property Taxes	$ 52,266	$ -	$ -	$ 1,517	$ -	$ 53,783	$ 83,192	$ (29,409)
Interest	1,420	1,633	-	808	12,549	16,410	7,390	9,020
Lease Income	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	43,070	43,070	-	43,070
Total Revenue	53,686	1,633	-	2,325	55,619	113,263	90,582	22,681
Expenditures								
Principal	31,250	70,000	-	-	180,000	281,250	279,000	(2,250)
Interest	6,757	2,275	-	-	376,794	385,826	387,888	2,062
Fees	-	784	-	-	39,982	40,766	5,225	(35,541)
Contractual Services	6,489	-	-	-	-	6,489	4,500	(1,989)
Total Expenditures	44,496	73,059	-	-	596,776	714,331	676,613	(37,718)
Revenues Collected Over (Under) Expenditures	9,190	(71,426)	-	2,325	(541,157)	(601,068)	(586,031)	(15,037)
Operating Transfers	(12,571)	61,420	-	(61,469)	765,817	753,197	5,628	(747,569)
Revenues Collected and Operating Transfer Over (Under) Expenditures Paid	$ (3,381)	$ (10,006)	$ -	$ (59,144)	$224,660	$ 152,129	$(580,403)	$ 732,532

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2006

	Sewer Capital Improve	33 Hwy Construction	Downtown Improvements	Total	Budget	Over (Under) Budget
Revenues						
Highway Fund	$ -	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	195,000	-	-	195,000	225,000	(30,000)
Grants	-	9,588	-	9,588	-	9,588
Interest	13,117	81,655	5,685	100,457	37,900	62,557
Cable T.V.	-	-	-	-	19,200	(19,200)
MODOT Reimbursement	-	-	-	-	-	-
Miscellaneous	-	-	20,048	20,048	-	20,048
Total Revenues	208,117	91,243	25,733	325,093	282,100	42,993
Expenditures						
Capital Improvements	36,856	162,716	20,454	220,026	727,350	(507,324)
Contractual Services	-	64,838	-	64,838	105,000	(40,162)
Salaries	-	56,117	-	56,117	66,390	(10,273)
Principal	80,000	-	16,000	96,000	269,000	(173,000)
Interest	64,981	-	18,810	83,791	452,149	(368,358)
Fees	-	-	-	-	2,000	(2,000)
Total Expenditures	181,837	283,671	55,264	520,772	1,621,889	(1,101,117)
Revenues Collected Over (Under) Expenditures Paid	26,280	(192,428)	(29,531)	(195,679)	(1,339,789)	1,144,110
Transfers	-	(194,594)	-	(194,594)	553,593	(748,187)
Revenues Collected and Operating Transfers Over (Under) Expenditures Paid	$ 26,280	$ (387,022)	$ (29,531)	$ (390,273)	$ (786,196)	$ 395,923

INTERNAL CONTROL AND COMPLIANCE

BRUCE D. CULLEY C.P.A., P.C.
3000 Brooktree Lane, Suite 210
Gladstone, MO. 64119
816-453-1041 Fax: 816-453-0721

Report on Compliance and on Internal Control over Finance Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*.

Honorable Mayor and Board of Aldermen
City of Kearney, Missouri

I have audited the financial statements of the City of Kearney, Missouri, as of and for the year ended March 31, 2006, and have issued my report thereon dated September 1, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Kearney, Missouri's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Kearney, Missouri's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board Aldermen, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Bruce Culley
Certified Public Accountant

Gladstone, Missouri
September 1, 2006